

## Becoming a better leader

Corporate crises put a lot of mental stress on CEOs. David Chan, professor at Singapore Management University, thinks that psychology can help those at the top. One lesson: Don't fall in the regret trap. The good thing: Crises can make CEOs grow.



**DAVID CHAN** received his Ph.D. in industrial and organizational psychology from Michigan State University. He is currently professor of psychology and interim dean at the School of Social Sciences, Singapore Management University. Chan has published numerous articles and authored several handbook chapters and encyclopedias. He serves as senior editor of the Asia Pacific Journal of Management. Together with Nobel Laureate Daniel Kahneman, he serves on an international committee formed to develop measures of national well-being.

**THINK:ACT** Professor Chan, what's going on in the mind of a CEO when the company gets in a crisis?

**DAVID CHAN** A crisis is foremost perceived as a stressful situation that threatens the survival of the company. As part of an automatic human survival response, the CEO will experience an increase in adrenaline and other stress hormones as well as a physiological activation of those parts of his nervous system to energize himself to prepare to fight or flee from the potentially threatening situation. This physiological activation is accompanied by emotions such as fear, anxiety and anger.

Is the "fight or flee" alternative still enough?

The pattern of human reactions of fight or flight triggered by threatening situations could either enhance or inhibit effective crisis management. It is useful when it leads to heightened awareness, increased vigilance and preparedness to act quickly and decisively in situations that demand these predispositions.

But it might also be insufficient?

The pattern was certainly adaptive in evolutionary past when our physical personal survival was in actual danger. However, in today's world, some of the automatic reactions may be maladaptive. Fleeing a crisis situation is either not possible or not desirable if the goal is to help the company overcome the crisis. Some fighting reactions such as aggressive behaviors and hypervigilance are also counterproductive when calmness, restraint of impulsive actions or calculated risks are necessary.

Can CEOs prepare for tough times?

Yes. CEOs need to learn about and understand the basic normal human survival reactions to threatening crisis situations and be sensitive to potential

blind spots and dangers. In addition to equipping themselves with stress coping skills such as techniques of anxiety reduction and impulse control, CEOs can enhance their skills in crisis management through development of leadership competencies: systems thinking, scenario thinking, prioritization, personal composure and impact under stress, decision making with incomplete information, ability to persuade, influence and motivate others, interpersonal sensitivity, situational awareness and practical intelligence. One of the greatest CEO weaknesses is the belief that he already possesses all the experience and skills needed for crisis management.

Which is bad?

Some top managers, by virtue of occupying leadership positions, mistakenly assume that their legitimate authority translates to leadership competency. They think there is no need for them to learn more about leadership. They are less likely to check their own assumptions on how to lead. For example, there are some basic psychological facts that are highly relevant when dealing with crisis situations but these are often unknown or ignored by CEOs.

Like what?

Consider research findings on negativity bias in human behaviors. Research has consistently shown that the power of the negative is stronger than the power of the positive. A loss of \$100 is more negative than a gain of \$100 is positive. One reprimand has a stronger and more lasting effect than one praise. Very often, leaders failed because they did not consider the human tendency towards negativity bias when they interact with others.

CEOs bear a lot of responsibility when their company is in trouble. How can psychology help them?

*There are some well-established dos and don'ts in crisis management. Don't deny or ignore the crisis. Procrastinating or postponing decisions is likely to make things worse. Although it is important to identify and analyze your mistakes, don't dwell in regret, guilt and self-pity.*

#### What can CEOs do then?

*There are several problem-focused strategies that could help cope with the mental pressures from a crisis situation. You could perform a cognitive reappraisal of the situation to move away from negative emotions such as anxiety, fear, anger, regret, guilt and blame, and consider different and new perspectives directed at resolution of the crisis. Maintaining a sense of self-esteem is critical. As the CEO who is the commander-in-chief in the crisis situation, it is also important to have an appropriately high level of self-efficacy—the belief that you are able to effectively mobilize available resources to accomplish tasks directed at solving problems. Finally, social support from family and friends is critical.*

#### How well are current CEOs prepared for a crisis?

*Many CEOs, especially first-time CEOs or those without any previous experience of handling crisis situations, are probably not very well-prepared to deal effectively with crisis situations where the problems are ill-defined and the demands are novel. Things also get more complicated when the crisis occurs in a cultural, political and economic setting that is unfamiliar to the CEO. Finally, crisis situations involving integrity and ethical issues and those occurring in pre-existing hostile work environments or under great uncertainty such as a recent change in top leadership or a recent acquisition or merger are particularly difficult to deal with.*

#### Should top managers use psychological help?

*In prolonged crises, CEOs having severe adaptation problems may benefit from professional help in clinical psychology so that they can regain psychological health. However, in many crisis situations demanding immediate attention, it may not be possible to take regular and substantial time off from work to seek professional help. In such cases,*

*applying basic techniques of stress management becomes important.*

#### In a crisis, the CEO also has to strengthen employee confidence. But how?

*You need to show that you are in control of the situation without trivializing it. Get the entire leadership team to show empathy and address the immediate needs and concerns of the employees! Help the employees see what is critical and why they need to focus on what is critical to overcome the crisis! This often requires more than merely presenting strong and clear arguments—you need to possess a sense of mission and an ability to create optimism and hope among employees and inspire them to action. What the CEO needs here are leadership competencies associated with person composure and impact, interpersonal sensitivity, situational awareness, and judgment effectiveness and the ability to motivate.*

#### Is it good or bad for the CEO to show employees that he is also personally in a tough situation?

*Employees are not predisposed to empathize and appreciate the personally tough situation that the CEO is going through; they are expecting to see a composed and dynamic leader who will solve their problems. In crisis situations, it is not unusual for employees to get more critical of the leadership. Hence, it is even more important for CEOs to understand the psychology of employees and react constructively.*

#### Is it possible for a CEO to grow personally through a crisis?

*Certainly. The experience of the crisis, especially when it was successfully overcome, provides the CEO the memory of a major work life event that he can draw on later. The crisis experience is like an unstructured real-life training. It also helps develop resilience in the CEO. Often, after a crisis experience, the CEO will enter a reflective phase where he takes stock of his values, attitudes, beliefs, actions, roles and social relationships. This may result in a positive reprioritization of goals, such as placing more importance on teamwork, employee well-being and talent management.*

# DOSSIER #12

## THE ART OF CORPORATE RECOVERY

### Key learnings

What to do when the crisis hits you? In this dossier, we offered some advice for companies whose business or industry is going through hard times. Here are some results:

- Don't concentrate only on financial restructuring! The organizational side also matters.
- Keep the market in focus! If you restructure internally without also improving your market position, you will lose.
- Get the numbers right first! A solid financial analysis helps the rebuilding of your business and gives lenders confidence.
- Talk—but in the right way! Lenders and investors share information. Hence, you need a strategy for what you want, or have, to convey.